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BANGLADESH: Recent measures designed to restore public confidence in the government appear to be having some success.

Prime Minister Mujib returned home last month, following an operation and seven weeks of convalescence in Europe, to find that public restiveness was mounting because of government corruption and maladministration. Mujib responded quickly, dismissing a number of middle- and upper-level bureaucrats and expelling 19 allegedly corrupt legislators from the ruling Awami League party. Under existing regulations the 19 automatically lost their seats in the national legislature. The government also closed three far-left opposition journals, instituted new antismuggling measures, and announced that the long-delayed draft constitution would be presented at a legislative session that convened yesterday. Additionally, the regime stepped up its efforts to arrest and prosecute persons accused of collaboration last year with Pakistan and decreed a tough new labor policy designed to stem growing unrest in the small labor movement.

This activity appears to have restored a considerable measure of public confidence in the government. Moreover, no opposition group has become strong enough to pose a credible alternative to Mujib. [redacted] 25X6
25X6 continuing food and clothing shortages, remain serious problems. Heavy criticism probably will surface again unless the government's performance improves. [redacted] 25X1

HONDURAS: President Cruz has scuttled at least for the present the most recent efforts to revive the Central American Common Market by demanding prior international arbitration of the disputed frontier with El Salvador.

Cruz, whose inflexible attitude has blocked delineation of the border for almost a year, has now tied acceptance of his method of settlement to regional economic problems by rejecting a proposal for restructuring the market until the border is settled. He did not, however, rule out Honduran attendance at the discussion sessions scheduled to begin on 20 November.

The rejected proposal had been drafted by the common market secretariat in response to Honduran complaints that the five-member market had benefited only the more developed partners. Many observers, including US officials, believe the plan is a reasonable basis for negotiations, but with no hope that Honduras will sign any agreement until El Salvador has given in on the border dispute, Cruz' position may well be interpreted as diplomatic

25X1 blackmail.

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DENMARK: Convocation of the Vietnam "War Crimes Tribunal" in Christiansborg Palace, the seat of parliament, and the participation of Prime Minister Jorgensen and other government officials constitute a high point for pro-Hanoi activity in Copenhagen. At the opening meeting on 10 October, Jorgensen soundly denounced "systematic US bombing" in Vietnam and stated that his government was preparing a "substantial" assistance program for Vietnam after hostilities end. Other such meetings have been held in Stockholm and in Oslo, but in less prestigious facilities. The opposition press has scored Jorgensen for permitting the use of Christiansborg, and one newspaper reminded its readers that unlike Sweden, whose Vietnam policy is also critical of the US, Denmark is a NATO partner. Jorgensen is an active member of the local group that is sponsoring the tribunal. He is no novice in anti-US circles. His extremely accommodating behavior toward the tribunal may be intended to convince Danish leftists that his attitude has not changed now that he heads the government. 25X1

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MALAGASY REPUBLIC: Philibert Tsiranana has stepped down as president, following the overwhelming affirmative vote in a referendum last weekend to abolish the office of president and to give General Ramanantsoa a five-year mandate. Tsiranana, who held office for 14 years, had been only a figurehead since May when student and labor demonstrators forced him to turn real power over to the military. Ramanantsoa has since won widespread acceptance throughout the island by responding to popular demands for political and economic reforms and by trying to reduce Madagascar's dependence on France. The size of Ramanantsoa's victory in the referendum will strengthen his hand in resisting the more radical demands of the students and workers who brought him to power. 25X1

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NOTES

LAOS: The Communists are moving ahead with preparations for peace talks. Lao Communist leader Souphanouvong has named Phoune Sipraseuth to lead a ten-man negotiations delegation scheduled to arrive in Vientiane this weekend. Phoune, a relatively high-ranking Pathet Lao official, was also named Souphanouvong's plenipotentiary during an abortive attempt to get talks started in 1970. In addition to several other Pathet Lao officials, Souphanouvong named three "Patriotic Neutralist" officials to the delegation--probably to give it a broadly based appearance. Although no date has been set for the beginning of the talks, the Communists are still holding to the line that talks can start without a US bombing halt throughout the country. [redacted] 25X1

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CHILE: The government has cracked down swiftly on a widespread truckers' strike and may use the challenge to extend its economic control. A state of emergency has been declared, putting the army in charge of the economically vital central area where road blockades set up by the strikers had aggravated already sensitive distribution problems. The Allende administration averted an earlier strike threat by making some concessions, but its response to the new strike included threats to take over for state operation some 1,500 new trucks consigned to striking truck owners. The latter appear to be supported by about half their drivers. Several labor and business groups intend to strike in sympathy today. If the government calls out the security forces as it did against the shopowners' shutdown in August, the present tensions could result in violence. [redacted] 25X1

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CANADA: With the federal election less than three weeks away, the Trudeau government has received bad news about inflation and unemployment. Consumer prices jumped again in September, largely as a result of higher food prices, and have now risen four percent since the beginning of the year. The inflation rate for the entire year is likely to exceed the 4.5 percent of 1969--a level that induced the government to adopt restrictive monetary and fiscal policies that now would be ruled out by high unemployment. Earlier this week, Trudeau was jolted by news that the September unemployment rate had climbed to 7.1 percent, the highest monthly rate in a year. Unemployment has been increasing since June, following a slight improvement earlier in the year. [redacted] 25X1

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MEXICO: The Trend Toward Economic Nationalism

The Echeverria administration is formulating an economic policy that favors a continued expansion of government ownership of business firms and tighter controls for foreign capital. The government's goal is to maintain a high economic growth rate while at the same time hunting for ways to attack the long-term problems of sharp income disparities, persistent unemployment, and serious rural underdevelopment. Several key administration officials consider these problems, plus a very high population growth rate, the main threats to successful economic development. They also believe that solving them is the key to maintaining political stability.

President Echeverria is telling foreign--predominantly US--and domestic business interests to use their resources more to help meet the country's priority development needs. Many observers question whether he has the political will or perhaps even the power to take on the vested interests; he may back off if the complaints become too loud and his policies depress the business climate to the point where his economic objectives are jeopardized. So far, however, he seems sincere, and, by means of a carefully measured balancing act, mixing praise with criticism, reassurances with threats, he appears to be getting his message across.

During the past several months the government has been acquiring increased ownership in a number of industries. It has acquired majority, or in some cases complete, interest in firms in the banking and copper industries, the national telephone company, a major sulphur mining company, the nation's largest newspaper chain, a leading Mexico City television station, and a string of hotels. These take-overs mainly have been dictated by pragmatic necessities: firms important to the economy were suffering from poor management or shaky finances. Needless to say, they have caused concern in the business community.

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Aside from these moves, recent statements by Echeverria and other top officials also point in the direction of more government control. They have criticized some local businessmen, including bankers and industrialists, for failing to have the country's best interests at heart, but most of the tongue lashing has been directed at foreign investors.

Secretary of National Patrimony Flores de la Pena, an increasingly vocal economic nationalist, recently lectured a group of international business executives on the "evils" of multinational companies, saying that Mexicans want to be partners, not servants, of foreign investors. Referring to Mexico's mixed state - private sector economy, he said that government agencies should take a greater share of participation in joint ventures in the future. He gave no indication that the government would demand such "participation" in foreign-owned enterprises, but implied that the government should intercede in some cases to protect private Mexican firms from being absorbed by more powerful foreign investors.

Flores de la Pena appears to be clearly putting forth the "rules of the game" for foreign investment in Mexico. One measure being considered is a law that would require foreign companies to export a percentage of the products they produce in Mexico. A UN study of 110 firms with foreign ties operating in Mexico shows that 104 prohibit their Mexican outlets from exporting their products. Finance Secretary Margain recently said that "this contradicts President Echeverria's thesis that we must export and is the kind of foreign investment we do not accept." One of Echeverria's fundamental goals is to gain better treatment for Mexico as a technology importer. One way to do this would be to change company requirements that limit sales by foreign firms to the Mexican market. Such a law could cause problems for US companies established in Mexico.

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American auto companies, for example, would be required to export completed cars manufactured in Mexico.

Other officials--all sent by Echeverria to speak before Congress--have harped on similar themes of economic nationalism and the responsibilities of the private sector. They are urging an end to "economic colonialism" and to "technological dependence" on foreign countries and exhorting foreign investors to establish industries with a "clear sense of social justice."

The President, in his state-of-the-nation address last month, clearly put private capital--and especially foreign private capital--on notice, saying that the government's duty is to direct the economy and to place capital at the service of the entire nation. For the first time, Echeverria publicly attacked--albeit without identifying them--the conservative business sectors, referring to them as small groups living in the past and defending anachronisms. "We shall not yield to groups that conspire to prevent renewal," he said.

Despite Echeverria's exhortations to foreign and domestic investors to change their ways, it is doubtful that he will make abrupt or radical changes that would risk the loss of private investment--still the principal guarantee of continued economic development and, ultimately, of social progress. So far during his two years in office, he has been long on rhetoric but has done little in terms of concrete economic reform. As in many other situations, Echeverria deftly balances his attack with soothing words. In his state-of-the-nation address, for example, after stressing his commitment to change, he quickly commented that "economic growth should not be held back since it makes self-sustained development possible."

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Much of his emphasis on increasing nationalistic controls, however, is unpalatable to those in the business community. It also causes concern among foreign investors, whom the government still regards as vital but not sufficiently dedicated to solving the country's basic social and economic problems. These interests seem uncertain as to how Echeverria will proceed and will be keeping a wary eye on the President's future economic strategy.

The private sector must be aware by now, however, that Echeverria will probably not, after his six years in office, be able to point only to the maintenance of a high economic growth rate. He appears rather to be the kind of President who will want it said of him that he made some progress toward achieving a more equitable distribution of income, raising the standard of living of the poor, and, in general, bringing a greater degree of social justice to the country. He may have reached the conclusion that the economic basis is sufficiently firm now to allow an acceleration of social programs. What he apparently fails to realize is that, to a significant degree, the goals of greater justice in the distribution of income and economic development, at least in regard to short-range capital flows, are mutually exclusive. He appears convinced that he can work for both goals simultaneously, but at some point he will be forced to trade off one objective to achieve the other.

What he has done so far is to inform the private sector of his desires and to get some important businessmen to pay at least lip service to his social goals. He is, at the same time, building a better bargaining position with the private sector that he can use to ease conflicts over any future reforms.

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